

Pipeline Promoter

to Aid in Probe

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By George Lardner Jr.
Washington Post Staff Writer

Swiss financier Bruce Rappaport has agreed to cooperate with the independent counsel investigating the role Attorney General Edwin Meese III played in a plan to build a \$1 billion pipeline from Iraq to Jordan, according to informed sources.

Independent counsel James C. McKay, who is directing the inquiry, reached the agreement within the last week, the sources said. Under it, they said, Rappaport will be granted immunity from prosecution unless he perjures himself.

Rappaport, who had hired Meese's close friend E. Bob Wallach for help on the project, undertook to obtain Israeli guarantees not to attack the pipeline and to secure a \$400 million insurance package for payments to Iraq and Jordan in case Israel reneged.

Sources familiar with McKay's inquiry said Rappaport told investigators in preliminary interviews last month that he decided to approach the National Security Council for help in June 1985 because he thought it had a "special piggy bank for important emergencies."

Rappaport, who had been working with the Bechtel Group, the U.S. company that was to build the pipeline, said he wanted to look into the possible use of U.S. government funds because the projected insurance premiums were too high.

According to the sources, Rappaport said it would have been "an insult" to ask Israel to "cough up" the insurance money, as the Bechtel Group had proposed. He said he thought it was wrong to expect more of the Israelis than a promise not to attack the pipeline.

The Swiss businessman estimated that he stood to make \$200 million a year in profits from selling

Iraqi oil coming out of the pipeline, but he told investigators: "I will not tell you what I was going to do with the money." He indicated, however, that he planned to give "a certain portion" to Israel, either in cash or oil.

Rappaport made the statements to McKay's investigators in interviews outside the United States. They represent the first insider's account of the maneuvering that has led McKay to his most intensive investigation of Meese since he began investigating the attorney general's conduct in office last year.

Meese arranged the June 24, 1985, meeting at the NSC for Rappaport and his new lawyer, Wallach, a friend of Meese since the 1950s. According to sources, Meese had called up then-national security adviser Robert C. (Bud) McFarlane in May and asked McFarlane to see Wallach about a proposal "that seemed to have promise."

The pipeline project collapsed in late 1985 with a fading of Iraqi interest, falling oil prices and McFarlane's resignation from the NSC staff. His successor, Vice Adm. John M. Poindexter, killed a final scheme for U.S. involvement after being advised, sources said, that it had deteriorated into "a protection racket." That final scheme involved proposed payments of at least \$400 million to the Israelis out of the Pentagon budget for "being good."

Before the project collapsed, however, Rappaport had enlisted the support of one of his old friends, then-Israeli Prime Minister Shimon Peres. At the same time, Wallach, consulting frequently with Meese, worked with McFarlane and his NSC staff to drum up official U.S. financial backing. In the fall of 1985, Meese also helped set up a back channel between Peres and the NSC that bypassed the State Department.

McKay is trying to determine whether Meese violated any federal laws in the process. The 1977 Foreign Corrupt Practices

Act prohibits U.S. citizens, companies or their agents [the agents can be foreigners] from paying "anything of value" to foreign officials, governments or political parties for help in obtaining business.

Rappaport, known as an international oil trader, is expected to supplement his initial statements with sworn testimony. In the interviews last month, according to the sources, he denied any wrongdoing and seemed to blame Bechtel for the project's failure.

The sources said Rappaport gave this chronology:

He became involved with the project in November 1984. Bechtel, a worldwide engineering and construction firm based in San Francisco, had the inside track to build the Iraq-through-Jordan pipeline since the spring of 1984. But Rappaport said his interest was stirred by a French oil company executive who told him about the project and about "the need for Israeli assurances" not to disrupt the pipeline.

That was apparently the first thing Rappaport checked. He said he met with Peres on Nov. 13, 1984, and got "word . . . from Peres that Israel would be willing to give its assurance that the pipeline would not be attacked."

Rappaport said he then got in touch with Nissho Iwai, a Japanese trading company with which he had worked earlier. This led to a series of contacts in January and February of 1985 between Rappaport's Inter Maritime Group, Nissho Iwai and Bechtel. By then, Rappaport had held discussions about Nissho Iwai's serving as a "front" for him in marketing discounted crude oil from the pipeline.

Records shown to Rappaport during the interviews indicated that there were early discussions of the need for an "insurance fund" created out of Rappaport's profits and to be used for payments to Israel. But Rappaport denied it during his talks with investigators. He said he thought that a letter from Peres providing guarantees against unprovoked aggression was sufficient. Rap-

The Washington Post
The New York Times
The Washington Times
The Wall Street Journal
The Christian Science Monitor
New York Daily News
USA Today
The Chicago Tribune

Date 5 March 1988

Continued

Page 25

Rappaport said he met Peres again on the evening of Feb. 24, 1985, and asked the Israeli leader to sign such a letter, which Bechtel drafted. Rappaport recalled that the prime minister was in his pajamas.

At meetings the next day, Rappaport said, other Israeli officials wanted to water down the letter to the point that it would be meaningless. Rappaport said he headed that off by telling the Israelis that "he would be in a position to swap the Iraqi oil for oil that could be delivered to Israel."

On March 8, 1985, a Bechtel official informed Rappaport that Iraq and Jordan were not satisfied with the Peres letter. Bechtel wanted Rappaport to see if Peres would be willing to guarantee "some degree of compensation" from Israel to the pipeline owners in the event of an overt act of disruption.

Specifically, Bechtel proposed an irrevocable \$250 million letter of credit from the Central Bank of Israel. Rappaport said he was surprised and annoyed, telling investigators that "getting or asking Israel for bank guarantees would have been an insult."

Rappaport said he and Bechtel officials met with Peres and Israeli Economics Minister Gad Yaacobi in April 1985 to tell them "a more substantial guarantee was needed," but no precise demands were made and there was talk of Israel getting oil from Rappaport at a discount.

About the letter of credit, Rappaport said he thought it too demanding. "If I did discuss it with the Israeli government, it was with the understanding that they not put up the \$250 million, I would put the money up," Rappaport told investigators.

Around this time, Iraqi demands caused the proposed letter of credit to be increased to \$400 million and Rappaport decided to explore the availability of U.S. funds. He said a friend in Paris recommended he seek out Wallach. Rappaport said his friend must have told him that Wallach had connections in Washington and "maybe indicated that Ed Meese was a close friend of his."

Rappaport flew to Washington on May 19, 1985, to see Julius Kaplan, one of his Washington lawyers, and officials of the Overseas Private Investment Corp. (OPIC), a government agency that insures foreign investments by U.S. firms. Rappaport said he had lunch with Wallach the next day and Wallach "indicated . . . that he could arrange to have a meeting with Bud McFarlane, head of the National Security Council."

Asked how he thought the NSC could help, Rappaport, a friend and occasional golfing partner of then-CIA Director William J. Casey, said it was his understanding that the NSC had a "special piggy bank for important emergencies and that they can make use of it if the NSC thought a certain matter was important enough."

The NSC has no "contingency fund" of its own, sources said, but, in effect, this may have been what was proposed for the pipeline in a draft National Security Decision Directive in late 1985. Secret payments to Israel would have been made out of a heavily disguised, NSC-controlled appropriation in the Pentagon budget. This is the plan, sources said, that Wallach and NSC staff aide David Wigg, whom McFarlane had asked to work with Wallach, had been promoting and the one that Poindexter ultimately killed.

Rappaport could not be reached for comment despite several attempts to contact him. One of McKay's chief deputies, Carole Bruce, had no comment. "We will neither confirm nor deny any possible or actual investigative activity," she said.

At the June 24, 1985, meeting with McFarlane, Wallach told Meese in a memo made public last week, McFarlane made "a very firm and unequivocal commitment . . . to the accomplishment of the project on an accelerated basis. You will recall that arrangements were made to work with a member of his staff . . . and that a way would be found to 'crack the safe.'"

Rappaport, Wallach and Kaplan spent the summer trying to get insurance from OPIC, whose officials had been assured by McFar-

lane that the pipeline was important to national security. But OPIC officials wanted the "major players," including Israel, Rappaport and Bechtel, to pledge their own money to reimburse OPIC in case insurance payments had to be made. None was willing to do so.

On Sept. 19, 1985, Rappaport went to Israel to see Peres again. The financier obtained a handwritten letter from Peres to Meese in which the prime minister said: "I would go a long way to help it [the pipeline] out. But then discretion is demanded on our part . . . I have asked my friend Bruce and Bob to let you know the whole story."

Rappaport said last month that Wallach "may" have asked for the letter to force an answer to the basic question: "Is this a deal or not?"

Wallach obtained the letter from Rappaport in Geneva and handed it to Meese on Sept. 25. Wallach also gave the attorney general a "For Your Eyes, Only" memo saying that Rappaport had "confirmed the arrangement with Peres" whereby Israel would get \$65 million to \$70 million a year for 10 years once the pipeline was built.

"What was also indicated to me, and which would be denied everywhere, is that a portion of those funds will go to Labor [Peres' political party]," Wallach added.

Rappaport told investigators that he regarded the Labor Party as "good for Israel and the United States" but he insisted that Wallach "invented the Labor portion reference" in his memo. He said Wallach "did not hear that from Bruce Rappaport."

The plan for OPIC insurance fell through by early fall of 1985. Rappaport said he was unaware of other avenues of financing that were explored, but that would appear to conflict with memos that Wallach sent to him that December about the Pentagon funding scheme.

"Dear Bruce," Wallach wired Rappaport on Dec. 12, 1985, "the capital DOD [Department of Defense] package appears to be in place . . . It will be submitted by D.W. [David Wigg] to B.M. [Bud McFarlane] today."

Wigg, now a Pentagon official whose office says he is cooperating with McKay's investigation, appeared Thursday before a federal grand jury that is assigned to the case.